

Indiana Property Tax Equalization Study

Interim Report



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Indiana Property Tax Equalization Study Interim Report

The purpose of this Interim Report is to communicate the status of the Indiana Property Tax Equalization Study. There are a number of counties that have completed reassessment and have complied with the state's request [statutory] to submit the data in a standardized format. The status of the project, however, continues to be affected by the ongoing delay in obtaining the necessary data from the remaining counties to complete the analysis. The number of counties that we expected by this time to have complete data sets available for equalization analysis is significantly smaller than was anticipated [the actual tally is given below].

Background

The State of Indiana is in the process of completing a reassessment that will bring the assessments of real property in line with the "true tax value" of assessable property as of March 1, 1999. To realize this task, it is necessary to objectively and independently review and measure the accuracy of the assessments from each of the 92 counties in Indiana. This type of review is achieved via a property assessment equalization study or sales ratio study. A study of this type is comprised of assessment, tax, sales disclosure and multiple listing data collected for each parcel within a county. As assessment and tax data from each of the counties becomes available, it is provided to the Department of Local Government and Finance (DLGF). Other data has been requested from each county, including sales disclosure from the Assessor's office and multiple listing information, which is held by the various regional Realtor boards. Coordinating this type of effort between multiple entities and multiple data formats has proven a great challenge to the project team.

Project Mission

Objectives

The objectives of the study were defined in initial meetings between the Indiana Fiscal Policy Institute (IFPI), certain private funders of the study and representatives of state government. The expectations were clearly defined in order to develop the scope of the project and to communicate an overarching objective for the study. The points below are the result of these meetings:

- To produce a County-by-County report on the equalization within each County.
- To accomplish the statutorily required School Assessment Ratio Study.
- To publish an independent report on the new reassessment process, both strengths and weaknesses, to the state administration, legislature and public.
- To provide the State of Indiana a database for effective, ongoing property tax administration.

Participants

To accomplish the above objectives of the Indiana Property Tax Equalization Study, assistance is being provided by the following entities:

- The IFPI with assistance from Thomas P. Miller and Associates (TPMA) is serving in the capacity of Project Manager for the study.
- Crowe Chizek LLC has been serving in the capacity of Information Technology assistance and has facilitated the receipt and posting of data as provided by the counties.
- Almy, Gloudemans, Jacobs and Denne (AGJD) are the Tax Consultants that are providing the analysis for the Indiana Property Tax Equalization Study.

In addition to assistance provided by outside Consultants, the State of Indiana is participating in the study in the following manner:

- Access to Local Government including County Assessor, Auditor and Township Assessor staff.
- State Officials including the DLGF, Legislative Services Agency (LSA), and State Budget Agency (SBA).

Other Project support is provided by:

- Association of Indiana Counties (AIC)
- Indiana Association of Realtors (IAR)

Goals

The overarching goal for both AGJD and the IFPI is to develop an independent, objectively verifiable ratio study that is in line with professional standards. The ratio study being developed will compare the 2002 assessments ("pay 2003 assessments") with the market values as of March 1, 1999 for agricultural, commercial, industrial and residential properties; with separate analyses of vacant and improved properties in each non-agricultural class for which sufficient data can be obtained. AGJD is working closely with both the IFPI and TPMA to ensure that the objectives of the study are met in a timely manner.

The undertaking of an independent tax equalization study achieves a number of objectives for each of the stakeholders of the study. The objective for state government is to verify the accuracy of this assessment, the first under market value or a close to market value standard. The IFPI and AGJD are assisting state government in accomplishing this objective in line with the best practice standards of property tax administration. To facilitate the accuracy of the data analysis, Crowe Chizek has assisted in developing a standard file format for both assessor and auditor data to be used by the counties. This standard file format facilitates initial data integrity checks and edits, accurate database population and allows for future integration efforts for the

state. Continued use of nonstandard data makes it virtually impossible, in this study and in future efforts, to develop a comprehensive view of data across counties that can be utilized for tax equalization or tax policy purposes.

In addition to the file format requirements, Crowe Chizek has created a website to aid the posting of incoming assessor and auditor data. Finally, the team is in the process of developing a database to be used by the Tax Consultants for their continued data analysis. This database is being developed independently from both the LSA and SBA efforts, but is in cooperation with those entities.

Project Process

This section is structured to discuss the tax equalization study process. It addresses the collection of assessment, audit, sales disclosure and multiple listing data and a discussion of the issues that pertain to the overall process, data gathering and the consequent analysis.

Data Flow

As assessment and auditor data from each of the counties becomes available, it is provided to the DLGF or LSA. Other data has been requested from each county, including sales disclosure from the Assessor's office and multiple listing information, which is held by the various regional Realtor boards.

Assessment Data

To date, 88 counties have had their reassessment and budgets approved by the DLGF (a list of these counties can be found as part of the attachment to this document). As each county completes its reassessment, the data is forwarded from the assessor's office or the software vendor to the DLGF. Of the 88 counties, 71 have submitted their reassessment data via their vendor to either the DLGF or Crowe Chizek. Of these submissions, 70 counties have submitted assessor data in the required standard file format and one county has submitted data in the legacy format. Crowe Chizek has been working with several of the other legacy format counties, for example Marion County, to develop a data conversion process that would allow ACS (the vendor for Marion County) to submit the data in the required format. This has been a time consuming and costly process for both the county and for the project. The below table provides an overview of what data has been submitted to date:

Assessor Data Table

Software Solution	Standard	Non Standard	Not Submitted	Total Number of Counties
Admins	9	1	2	12
ARC	0	0	1	1
CLT	0	0	1	1
In House	1	0	5	6
Plexis	7	0	4	11
Proval	53	0	8	61
Totals	70	1	21	92

As can be seen in the above table, to develop an accurate analysis for the entire state, the project team finds itself in the position of having to create a separate and possibly unique data conversion process for the remaining 22 counties. To develop this unique data conversion process would increase both the cost and timeline of the project exponentially.

Auditor Data

Standard Data:

The initial data sets received from the county auditors were submitted in various nonstandard and mostly unusable formats. This has since changed, as the team has been working with the various software vendors to develop a data conversion process to facilitate the timely submission of data. As a result of this effort, the project team has received 32 of the 92 counties in the required standard file format. (A list of these counties can be found as part of the attachment to this document.) Yet even with this progress, our assertion remains that unless the requirement to submit data in the standard prescribed process is not reiterated to the software vendors, the usefulness of the auditor data for purposes of the study remains questionable.

Nonstandard Data:

As of January 31, 2004, the state (LSA) has received data from 16 counties in a legacy data format extracted from the auditor system. Of the 16 counties that have submitted their data in the legacy format, few submissions are in the same or recognizable format. It is imperative the software vendors comply with the standard format as the possibility of having to develop a unique data conversion process for the 60 remaining counties seems daunting in the least. Although each county has been made aware of the standard data format, in many cases the audit portion

of the data is available only in a legacy format and is therefore largely unusable. (A list of these counties can be found as part of the attachment to this document.)

For the LSA and SBA to address, at least preliminarily, the policy issues raised by shifts in tax liability between various classes of property, the data from the auditor's office is the most valuable. The delay by counties and their agents (software vendors), has preempted this early analysis of the shift and in addition has caused considerable slowing of the progress of the equalization study. The table below clearly illustrates the necessity of impressing the importance of submitting standard data so that it can be used for study.

Auditor Data Table

Software Solution	Standard	Non Standard	Not Submitted	Total Number of Counties
ACS IN House	0	1	0	1
Equitax	0	1	0	1
IBM	0	1	1	2
In House	1	4	4	9
Legacy	22	5	7	34
LOW	0	3	3	6
MHI	0	0	2	2
MVP	9	3	24	36
Unisys	0	0	1	1
Totals	32	18	42	92

It should be noted that the standardized file format was communicated to the individual software vendors and the counties as early as May of 2003 and again in August of 2003. At the beginning of this year, the DLGF was told by some counties that it was not a priority to comply with the request due to timing and resource restrictions. The fact that in March of this year many counties had already rolled their data to begin data collection for the current pay year [2004] compounds the problem of data collection for the project team. In fact, the staff has had to work with multiple layers of individuals in some counties to eventually obtain the required data. This has been the primary focus of staff effort and produced the delays in finalizing reports.

Sales Disclosure and Multiple Listing Service Data

Another vital data component of the study is the sales disclosure information from each of the counties. This data set provides a measure of market value to be used in the ratio study. It is statutorily mandated that this data be provided in an electronic format to the state (IC 6-1.1-4-25 and IC 36-2-9-20). The majority of the counties do not retain this data in any other format than hardcopy paper, as was discovered when a data call was issued by the IFPI. A request was sent to each county assessor asking for sales disclosure information. Of the 92 counties, 16 have been able to supply the data for the requested timeframe. The fact that only 26 counties responded in total to the data call has consequently made data collection difficult for the project team.

To provide the tax consultants with the information necessary to develop the study, the IFPI and TPMA are requesting hard copy sales disclosure forms from the DLGF warehouses, mainly for Commercial and Industrial sales. To date, we have scanned and digitized information from approximately 28,000 hard copy forms to make up for the lack of electronically available data. The paper copies are scanned, their image retained and the data from predetermined fields keyed manually into a database for query by the tax consultants. The IFPI continues to engage a contractor to digitize the sales disclosure data for the counties for which we have preliminary analysis complete and that have Sales Disclosure data available only in a hard copy format.

Multiple Listing Service (MLS) data is used to augment the market value comparisons of sales disclosure data. In addition, this data allows the property tax equalization study to measure the effectiveness of the sales disclosure data in the determination of market value. Assistance from the IAR has been invaluable by assisting in the coordination of acquiring data from the regional boards. MLS data has been received for the 27 counties that are part of the MIBOR database, although this is not a complete dataset for every county. (A list of these counties can be found as part of the attachment to this document). In addition to the MIBOR counties, MLS data has been received for nine additional counties, Dubois, Gibson, Perry, Pike, Porter, Posey, Spencer, Vanderburgh and Whitley. Local or regional boards of realtors have expressed concern about maintaining confidentiality of their data. In response, the IFPI, with assistance from Crowe Chizek, is maintaining the MLS data in databases separate from the other datasets and it is queried only by the tax consultants [AGJD]. The project team continues to work with the remaining regional boards to obtain this necessary data for the rest of the counties.

Other Issues

As stated and outlined above, to develop an equalization study or sales ratio study, it is necessary to have data in a standardized format that encompasses the Assessor data, Auditor data, Sales Disclosure and MLS data. Some of the early assessment and auditor data sets that

have been made available to us are not always in a usable format, adding to the time spent in analyzing the data for completeness and usefulness. This data makes up a large part of a substantiating data set in the equalization analysis and remains to be the most difficult data set to obtain. This difficulty is intensified by the fact that several counties have not yet sent their tax bills or have just recently been able to send tax bills.

The Sales Disclosure and MLS data made available by individual counties mainly pertains to Residential sales. Although we have been able to digitize some Commercial and Industrial data and are working with the major Commercial Real Estate Brokers in Indiana, there is still a significant need for market value or “market-value proxy data” for Commercial and Industrial parcels.

Analysis

Although the problems outlined above are hampering the ongoing progress of this study, analysis is being undertaken by AGJD and the IFPI. To date, fifty-two counties have been briefly analyzed, with another ten counties receiving concentrated attention. Preliminary reports have been made available by the tax consultants to the analytical team to begin preparing comprehensive policy recommendations. It must be stated that since the preliminary results for two counties were reported at the last Steering Committee Meeting, the project team has covered considerable ground in obtaining data and developing preliminary analysis. However, there are a number of counties that have yet to focus on complying with the state’s need for data to complete the analysis.

For those counties where there has been a substantial amount of analysis and where the data is sufficient to begin drawing conclusions, the news is generally good in terms of accuracy of the reassessment. The median sales assessment ratios are in the 98-99% range with fairly small coefficients of dispersion. The issue, particularly in Indiana, is not simply how well property is assessed in one class, but if consistency exists among and between property classes. The delay in getting commercial and industrial market data and the delay in getting sales disclosure data continues to hamper the completion of the county specific reports for these counties.

Anticipated Project Outcomes

As part of this independent study, the IFPI expects to produce the following:

- To produce *County-by-County Reports* on the equalization within each county
- To accomplish the statutorily required *School Assessment Ratio* study
- To publish an independent report on the *New Reassessment Process* – both strengths and weaknesses – to the state administration, legislature and public

- To provide to the State a database for effective, ongoing property tax administration

In addition, the results of the equalization studies will be published and distributed to the public, local and state government officials. Public policy recommendations will be made to the State Administration and the Indiana General Assembly after discussion with both state and local officials and private sector interested parties.

IPTES Media Toolkit

As part of the Indiana Property Tax Equalization Study, the project team is also preparing a Media Toolkit. The purpose of the Media Toolkit is two-fold, it provides relevant background material for local government officials to discuss the reassessment process in their county and it provides the material necessary for the media to understand the overall process and objectives of the study. Once completed, it will be disseminated to the local government officials and applicable media outlets for utilization as background preparation material. Specifically, the components of the Media Toolkit will provide local government officials and the media with the following information:

A detailed explanation of the following concepts:

- Why Market Value – A market value-based property tax system has a comparatively stable and reliable base, which is attractive during troubled economic times. Indiana, in fact, does not use strictly market value and this will also be addressed.
- What is Market Value - Essentially is an expected price, the price for a property that the seller and an unrelated buyer would most likely agree on in an open market.
- How Market Value is determined - By officially determining the value estimate to be used as the basis for taxation using a combination of three basic approaches.

A detailed explanation of the three approaches used:

- Sales Comparison - Using information on recent market sales prices of similar properties and making systematic adjustments to their prices for differences between the sold properties and the appraised properties resulting in an indication of the value of the subject property.
- Income Approach - Is typically used to appraise rental properties, by estimating the future income stream over the remaining economic life of a property and using an appropriate rate-of-return on investments of comparable risk to “capitalize” the income stream into a present value as of the appraisal date.

- Cost Approach - Combines three components: the replacement cost of improvements minus accrued depreciation plus land value, which are estimated. Replacement cost is what it would cost to replace the existing structures and other improvements with new construction. Accrued depreciation is the loss in value due to physical depreciation, functional obsolescence, and economic obsolescence. Land value is what vacant land with the same characteristics and allowable uses would sell for in the open market.

A detailed explanation of what equalization means:

- Equalization is used to describe processes by which an agency with authority over two or more assessment districts makes adjustments to total assessments in the districts so that the assessments within the agency's jurisdiction all bear the same [or nearly the same] relationship to market value.
- Informally, property tax officials may use "equalization" as a synonym for reassessment, review of assessments, or deciding assessment appeals.

A detailed explanation of why states "equalize" property tax assessments:

- To ensure that taxpayers benefit equally from state-mandated exemptions.
- To provide equity in taxation.
- To improve the allocation of state aid.
- To ensure that local governments follow the statutory and regulatory regulation.

A detailed explanation of the steps necessary in completing a Ratio Study:

- Data Assembly
- Stratification
- Data Analysis
- Evaluation of Results
- Reporting

An overview of why an independent Ratio Study is necessary in Indiana:

- A ratio study essential is an audit of the quality of an assessment.
- A guiding auditing principle states that a person should not be able to cause and conceal an error from a stakeholder.
- When the stakeholder is outside the assessment office, such as a taxpayer, a taxing district, or in the case of the state, which can act on behalf of all taxpayers, taxing districts, and other assessment districts, there should be reasonable assurances that the study is what it purports to be.

The Media Toolkit is essential to the overall project. The concepts involved in a tax equalization study and the process of conducting a tax equalization study is complex, and it is therefore difficult to relate the process or the outcomes to those unfamiliar with the technical aspects of such a study. The understanding of the purpose and process of the equalization study provided by the toolkit will enable local and state officials and the media to discuss the results in ways that are open, accurate and consequently supportive of good public policy.

Summary and Future Steps

To address the process of disseminating the final reports produced by the project, protocols will be developed to ensure that local officials are fully briefed, state officials are given opportunity to respond, and the Steering Committee and other stakeholders are completely informed.

To summarize, this general reassessment is the first in Indiana under a quasi-market value standard. There are 92 counties with 1,008 townships throughout the state. For the first time, the data that is produced under this process at the local level is being sent in a standard format to the state. The difficulties that are being encountered this year may be expected in a process as complex and interdependent as this one. While we all are impatiently awaiting results, we can be assured that the process will be improved as a result of the changes and structure that is being imposed for the first time.

Appendix County Status List

COUNTY REASSESSMENT COMPLETE AND BUDGETS APPROVED (88)

Adams, Allen, Bartholomew, Benton, Blackford, Boone, Carroll, Cass, Clay, Clinton, Crawford, Daviess, Dearborn, Decatur, DeKalb, Delaware, Dubois, Elkhart, Fayette, Floyd, Fountain, Franklin, Fulton, Gibson, Grant, Green, Hamilton, Hancock, Harrison, Hendricks, Henry, Howard, Huntington, Jackson, Jasper, Jay, Jefferson, Jennings, Johnson, Knox, Kosciusko, LaGrange, Lake, LaPorte, Madison, Marion, Martin, Marshall, Miami, Monroe, Montgomery, Morgan, Newton, Ohio, Orange, Owen, Parke, Perry, Pike, Porter, Posey, Pulaski, Putnam, Randolph, Ripley, Rush, St. Joseph, Scott, Shelby, Spencer, Starke, Steuben, Sullivan, Switzerland, Tippecanoe, Tipton, Union, Vanderburgh, Vermillion, Vigo, Wabash, Warren, Warrick, Washington, Wayne, Wells, White, Whitley

COUNTY SUBMITTED STANDARD ASSESSMENT DATA (70)

Adams, Allen, Benton, Blackford, Carroll, Clinton, Crawford, Daviess, Dearborn, DeKalb, Dubois, Elkhart, Fayette, Fountain, Franklin, Fulton, Gibson, Greene, Hamilton, Hancock, Hendricks, Howard, Huntington, Jackson, Jay, Jefferson, Jennings, Knox, Kosciusko, Lagrange, Laporte, Marshall, Martin, Miami, Monroe, Montgomery, Morgan, Newton, Noble, Ohio, Orange, Owen, Perry, Pike, Posey, Pulaski, Putnam, Randolph, Ripley, Rush, Scott, Shelby, Spencer, Starke, Steuben, Sullivan, Switzerland, Tipton, Union, Vanderburgh, Vermillion, Vigo, Wabash, Warrick, Warren, Washington, Wayne, Wells, White, Whitley

COUNTY SUBMITTED NON STANDARD ASSESSMENT DATA (1)

Jasper

COUNTY SUBMITTED STANDARD AUDITOR DATA (32)

Bartholomew, Benton, Boone, Clay, Clinton, Daviess, Decatur, Elkhart, Fountain, Fulton, Hamilton, Howard, Jay, Lagrange, Marshall, Miami, Monroe, Morgan, Newton, Perry, Randolph, Rush, Shelby, Starke, Steuben, Union, Vermillion, Wabash, Warren, Washington, Wayne, White

COUNTY SUBMITTED NON STANDARD AUDITOR DATA (18)

Adams, Allen, Blackford, Dubois, Fayette, Hendricks, Huntington, Jennings, Johnson, Kosciusko, Marion, Pulaski, Ripley, St. Joseph, Vanderburgh, Wells

COUNTY SUBMITTED SALES DISCLOSURE DATA (16)

Elkhart, Fountain, Franklin, Hamilton, Hancock, Henry, Jasper, Jay, Marion, Monroe, Parke, Porter, Ripley, Tipton, Vanderburgh, Wells

COUNTY SUBMITTED MULTIPLE LISTING SERVICE DATA (36)

Bartholomew, Boone, Brown, Clinton, Decatur, Delaware, Dubois, Gibson, Grant, Hamilton, Hancock, Hendricks, Henry, Howard, Johnson, Madison, Marion, Monroe, Montgomery, Morgan, Owen, Parke, Perry, Pike, Porter, Posey, Putnam, Randolph, Rush, Shelby, Spencer, Tippecanoe, Tipton, Vanderburgh, Wayne, Whitley